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THE RELENTLESS BULL: For this Letter I'm showing WEEKLY charts (ratio scale) of the Dow and the Transports. I've drawn rising trendlines connecting the lows of October 1995 with the lows of July 1996. These rising trendlines tell the story of the stock market over the last few years. Everything else, all other studies, have been (in retrospect) extraneous, literally useless.

The fact is that except for a less-than-10% dip in mid-1996, the market has been rising, rising, rising. The rise has taken stocks far above "known values," far past dozens of historic landmarks, and far beyond the comprehension of old-timers -- into an area, that, by many measurements and valuation-gauges, has never been seen before.

The question arises -- when the bull picture is so powerful, so obvious, so overwhelming, why even look for cracks and flaws? The answer is that every major reversal begins with a crack, a hairline fracture in the main structure of the market.

From the standpoint of market **action**, frankly, you have to search in order to see any cracks. Now remember, I'm not talking about overvaluation, I'm not referring to the fact that the market hasn't corrected in seven years, I'm not pointing to the fact that the market is bubbling over with an absurd number of mutual funds. I'm talking strictly about **market action.** And in its action, cracks aren't showing yet.

Many advisors are now saying that the US market is "too high" but that there are bargains in other lands, in other markets. No doubt this is true, but my feeling is that there's a lot less liquidity in foreign markets, and it's much more difficult to obtain valid information on foreign stocks. Furthermore, if the US stock market tops out and heads south, my guess is that almost ALL overseas markets will join US markets on the downside.

COMMENT: I spoke last week to a very sophisticated friend who had just returned from a huge "money conference" in Las Vegas. She came away with the following impressions: "From what I saw, I think that large, informed investors have pretty much stopped buying. They know that the stock market is 'very high,' and these people are content to sit with their stocks. A few are taking profits. On the other hand, the mutual fund buying public remains highly optimistic. They continue to place their savings in the stock market, and I think this steady source of new cash is what's driving the stock market higher. It's a case of millions of 'little guys' vs. a limited number of 'big money guys.' The big change in the market is the massive entrance of the mutual fund buying public. There's just never been anything like it."

UNSTOPPABLE? How much help were the technical and fundamental studies in the market rise of '96-'97? The truth -- almost ALL the time-honored market rules and measurements have failed or malfunctioned during this unprecedented bull market advance.

Valuations haven't stopped the bull. Yields haven't halted the market's climb. Book values, forget 'em. Odd-lot studies, they haven't worked. Utility lag, the market couldn't care less. Moving average breakdowns, the market sweeps them away. Head-and-shoulders tops, broadening tops -- they've been ignored as the market moves higher.

June 6 DJIA 7435.78; PTI 4901; A-D Ratio +5.86
June 13 DJIA 7782.04; PTI 4929; A-D Ratio +6.79
Dow Yield: 1.62%; Dow Price/Earnings: 20.5
Dow 144-day MA: 6827; Dow 34-day MA: 7316
Dow Times Book Value: 5.81; PTI 89-day MA: 4806
Percentage of Undervalued Blue-chips: 5%
Gold 144-day MA: 365

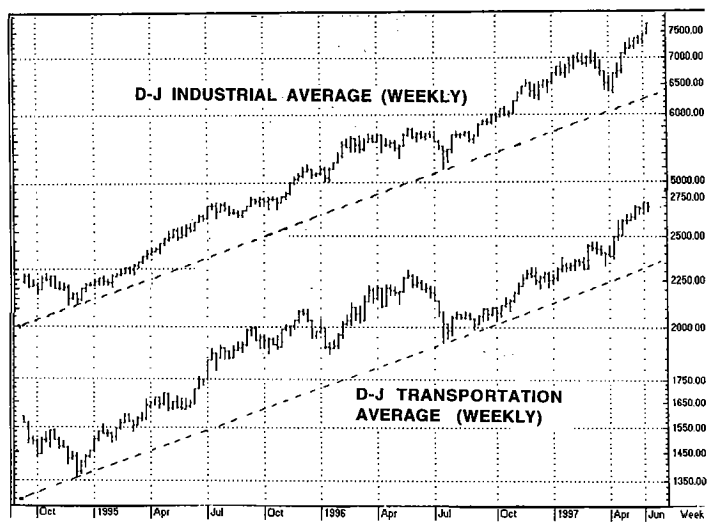
Defeated bears are calling the market's relentless rise "a mania," and they're probably right. Of course, by labeling the rise a mania they're saying that all bets are off, all analysis is useless, all historical case histories are inapplicable. They're saying that the market's in the grip of a mindless rise that defies all rational analysis.

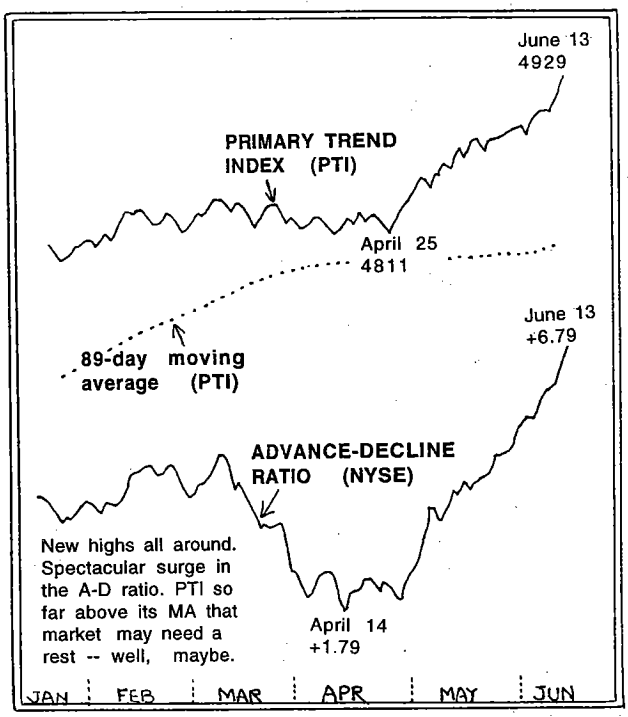
As far as I'm concerned, only MARKET ACTION itself has told the story (and been of any real help) during this bull market. My own instrument for dealing with market action is my **Primary Trend Index (PTI).** The action of the PTI (see page 2 chart) has been consistent and relentless -- it's been rise, consolidation, rise, consolidation, rise and then more rise.

The PTI is constructed so that it cannot be deceptive. The PTI is composed of eight "action of the market" indicators and indices, and when the **majority** of these trend higher, the market **must** go higher. Conversely, when the majority of my PTI components trend lower, the market **must** go lower.

The weakness in the PTI is that it doesn't deal with duration or extent. It does not tell us whether an advance will last a week or a year, and it doesn't tell us whether an advance will take the Dow 3% higher or 30% higher. It does tell us, however, which way the market is heading, and that's a lot more than most of the other indicators have revealed in this biggest and most volatile bull market in 60 years.

WHY, WHY? People ask me what's behind the incredible upward push of this market. I tell them -- MONEY. It's the pressure of $15 to $20 billion of mutual fund money coming into the market every month. While conservative individual investors may be pulling their horns in, the flood of mutual fund money continues unabated. It's a new phenomenon, and it will only end when "something snaps" in the upward progression, in the bullish continuity which has now enveloped Wall Street.



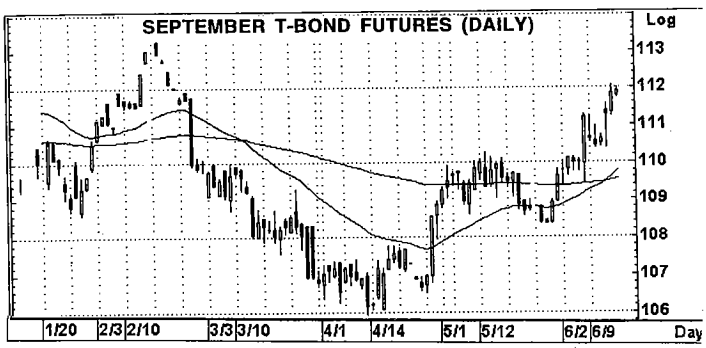


BAILOUT FOR GREENSPAN? Auto sales were soft in May for the second month in a row. Lumber futures are breaking down, and both new and existing housing unit sales declined in April. With these two huge industries slowing, the economy is probably in the process of slowing down (no recession, just slowing down). The Fed (embarrassed and confused by the market's total indifference to Greenspan's "irrational exuberance" warning) would welcome any kind of limited slowdown, both in the economy and in the stock market.

Greenspan issued his famous "irrational exuberance" statement on December 6. The Dow closed at 6380.94 on that day. Since then the Dow has climbed over 1200 points. You have to wonder what Greenspan is thinking now. He might be through talking about or even mentioning the market.

BONDS: Lighting fires under the stock market is the market's main competition, the bond market. I show the daily chart of the September T-Bond futures (this contract is based on bonds with a fixed 8% coupon).

From a low of 106 6/32nds on April 1, the bonds have climbed to last week's high of 111 15/32nds. As a result, the yield on the "long bond" has dropped to 6.6%, lowest since late-February. Three items militate towards strength in bonds. **(1)** If you want yield, you must now go to the bond market (stocks yield 1.7% or less, for the most part). **(2)** Foreign money is going into US bonds, which are the highest yielding premium bonds available. **(3)** The stock market is "high" and business is excellent. If there's any coming slowdown in business or if the stock market even corrects, bonds will be increasingly attractive.



PSYCHOLOGY: Old timers who went through 1973-74 know what fear is. They know the stomach-gnawing fear of seeing their favorite stocks go down 50% to 90%. The old timers have never gotten over that fear. And they're afraid that this market could end up the same way the 1973-74 market did. Bear market memories don't fade away.

The new bunch, the hundreds of fund managers who have never experienced a bear market plus the millions of mutual fund buyers who have never lived through a bear market, they're the ones powering this bull market. The new bunch don't believe that bear markets follow bull markets. They sincerely believe that "the times have changed and therefore it makes sense that the markets have changed."

Russell comment: I certainly believe that the times have changed. The creation of five thousand mutual funds certainly represents a change. The rise of the computer/electronic communications world represents a massive change.

However, I don't believe that human emotions (fear, greed) have changed. As night follows day, **greed** will take the stock market too far, and at some point the primary trend will turn down. The ensuing bear market will be dominated by **fear,** and ultimately stocks will be driven below known values. Count on it -- it will happen. Human emotions don't change.

Interesting comparison: In 1929 the US population was about **120 million** and volume on the NYSE was running around **2-4 million shares a day.** Then came the great Wall Street crash "on huge volume." That huge volume amounted to 16 million shares. Today the US population is **263 million** and volume on the NYSE runs about **500 million shares a day.** Compared to 1929 (in which there was actually very limited public participation), today's market is a giant "people's market" with extremely broad public participation.

Quotes of the week: Quote [courtesy of *Hussman Economics,* (800)487-7626]: *"Even a very crude strategy which moves 100% to cash when dividend yields are below 3.5% and interest rates are higher than six months earlier will outperform the market over the long run, and will do so with less risk of loss. In almost every market cycle, such a strategy falls behind the market near bull market peaks and surges ahead of the market near bear market lows."*

Quote [courtesy of *Investech,* (406)862-7777]: *"Over 92% of 4360 equity mutual funds have failed to match the 8.2% gain in the S&P 500 Index in the initial four months of 1997. Over 93.6% underperformed the S&P 500 over the past 12 months. Personally, we couldn't believe such figures until we took the opportunity to search and screen the data ourselves . . . Isn't it obvious why the mutual fund managers are tearing their hair out? Is there any doubt that we're seeing a 1968-'69 'Go-Go Fund' era, PLUS a 1972 'Nifty-Fifty' era all rolled into one psychological extreme?"*

Russell comment: The funds' inability to keep up with the S&P explains why fund managers are forced to invest incoming cash in the stock market as quickly as possible (often twice a day). The managers' jobs depend on their performance vs. the S&Ps, and if you want to keep up with the S&Ps you have to be in stocks, not cash.

CHANGE: A subscriber recently asked me, "Russell, you've been writing these Letters ever since 1958. That's a long time, but I notice that you continue to be absorbed with the markets and the economy. In all your market work, what have you found to be the single most **fascinating** factor?"

My answer was immediate, because I've often thought about this. To me, the most fascinating part of this whole market/economic study is the phenomenon of **change.**

Consider this: consumer sentiment is now about as rosy as it ever gets. Last week's *Time* magazine opined that this may be "The Best

Upturn Ever" (see below). Well known economist Edward Yardeni of Deutsche Morgan Grenfell states, "I'm highly optimistic about the next five years. I think inflation will remain near zero, and if I'm right, we will continue to have solid real economic growth and no recession."

THE BEST UPTURN EVER

Our Board of Economists agrees: this U.S. expansion is something special

By JOHN GREENWALD

No. 1 spot by the turn of the century. "This is perhaps the best U.S. upturn ever, with superb performance statistics and no obvious excesses anywhere," says Allen Sinai, chief

odds of 10,000 to 1 [against them]. That's how unexpected this expansion has been."

Unexpected, yes, but not inexplicable. Sinai, along with Edward Yardeni, chief

The fact, the fascinating, frustrating fact is that no man, no group of men, no government, has any valid idea of what the economy or business conditions will look like a year or even six months from now.

This might be a good time to repeat a paragraph that Charles Dow wrote at the turn of the century. It's a theorem that has yet to be disproved. Dow wrote, *"There is always a disposition in people's minds to think that existing conditions will be permanent. When the market is down and dull, it is hard to make people believe that this is the prelude to a period of activity and advance. When prices are up and the country is prosperous, it is always said that while preceding booms have not lasted, there are circumstances connected with this one which makes it unlike its predecessors and gives assurance of permanency. The one fact pertaining to all conditions is that they will change."*

I know how difficult it is to fully grasp this concept -- to believe that conditions of depression or recession are never permanent or that conditions of boom and prosperity are sadly only temporary.

I'm reminded of the psychology and sentiment that existed during the bear market lows of 1974. The Dow had collapsed from a high above 1000 to a low of 577, cutting itself almost in half. Many stocks had lost 50% to even 90% of their peak prices. Gloom enveloped Wall Street and the nation. Leading analysts were warning of "the Dow at 250."

At that time none of us could envision a situation 22 years ahead in 1997 when the nation was basking in prosperity and optimism. If anyone in 1974 had told me that the Dow would be above 7000 in 1997, I would have asked him what he was smoking.

Frankly, almost everything appears or "feels" rosy at this time. The chances of a major war seems slim to non-existent. The new world of instant communication and high technology appears to offer unlimited opportunities. Unemployment is low, and according to the Small Business Administration, this year 800,000 entrepreneurs will take the plunge and open their own businesses.

The point I'm trying to get across is that nobody really has any idea of what lies ahead. The one fact that is apparent is that stocks are selling at a huge premium above known value and that optimism is running at literally a once-in-a-generation high.

Could change come? Can joy turn to gloom? You can bet it can. When will change come? Unfortunately, neither I nor anyone else has the answer to that one. Our best signal for change will be provided by the stock market. And that, that fact alone, I think, is the most fascinating part of the whole market/economics study.

At any rate, here's what I can promise you. When change comes, it will be sensed first and **signaled first by Wall Street.**

INVESTMENT POSITION: You guessed it; the bull remains in the box. If you want income, you have to buy US bonds. At this point you buy stocks on hopes that they'll continue to rise; you buy bonds for guaranteed income. Long-term US Treasuries (free of state taxes) yield around 6.8%. Stocks on average yield 1.7% fully taxable.

Analysts and economists are now extending their "rosy scenario" from five years to as much as 20 years out. If the economists are correct, we can all be little Warren Buffetts and buy blue-chips and hold them forever. If the economists are wrong and bear markets still follow bull markets, then buying stocks here is a spin of the roulette wheel, and "a triumph of hope over experience."

Economists See Rosy Long-Term U.S. Future

■ **Finance:** Nation is poised for huge 20-year growth, many say. Job uncertainty is expected to continue.

By ART PINE
TIMES STAFF WRITER

WASHINGTON—Sociologists are worried that rich Americans are getting richer while the poor

growth in the interest of fighting inflation. The federal government has cut its budget deficit significantly.

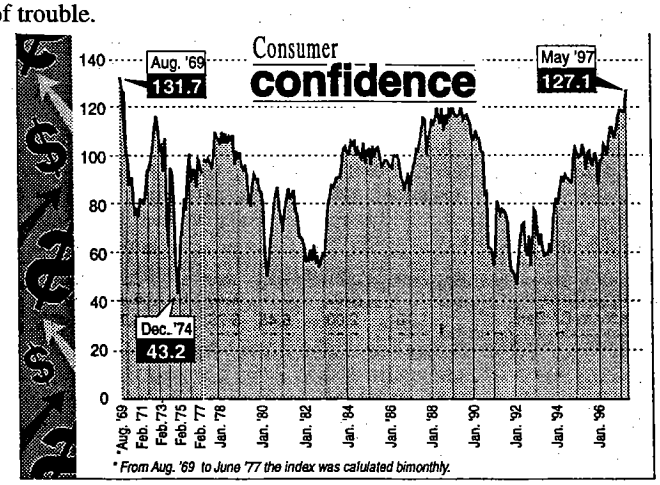
Now, the economy is reaping the rewards and is better balanced and

Last week it was easy to see the preference for the Dow over the much broader S&P 500. Money is being concentrated in the BIG blue-chips, and the reason is clear. These are the stocks with global capabilities, and these are the stocks which will be in the new Dow Jones futures and options. Put it this way -- if the Dow stocks don't go up, nothing will.

I urge all subscribers to read Peter Bernstein's article in the current (July-August) issue of *Worth* magazine. The piece is entitled, "Long Run or Also-Ran? Betting on 'the long run' is the balm -- and possible bane -- of today's equity investor." The article notes that the theorem that stocks outperform bonds "in the long term" depends on what segment of the long term you're talking about. A fascinating piece.

NOTES & QUOTES: "Consumer Confidence" (see the accompanying chart) for May shows confidence at the highest level since August 1969. Those who have my chart books of the D-J Averages might check to see what happened in the '69 period.

The Dow had hit a record high of 968 in May 1969. In July the stock markets closed down despite the US' sensational walk on the moon. By August the market, having sold off some, leveled off in the Dow 830 area. From there, the market headed south again, and, by May of 1970, the Dow had declined to 631. In retrospect, it was seen that the extreme Consumer Confidence of early '69 was a prelude to trouble in the stock market. We'll have to see whether the extreme Consumer Confidence of 1997 leads to the same kind of trouble.



Source: The Conference Board AP/Carl Fox

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America's love affair with **cars** continues unabated. Since 1987 the miles of road in the US that were built increased by only 1%, while at the same time the miles driven by US drivers increased by 35%. The downside, however, is that the rate of aggressive driving incidents has increased by 51% since 1990. According to the Federal Highway Assoc., in a study of 30 metropolitan areas, almost 70% of urban freeways today, as opposed to 55% in 1983, are clogged during rush hours. I don't know about where you live, but over the last 10 years I've seen the freeways of San Diego become clogged during rush hours. Statistic: since 1990 approximately 250,000 people in the US have been killed in auto accidents. I don't have figures on how many have been hurt or maimed.

* *

New industry -- Expensive **caskets** have always been a major money-maker for funeral parlors. Now competition is coming in via competitive casket makers. But funeral homes used to discourage bargain casket buying via steep "handling fees." The Federal Trade Commission stopped that by barring the fees. Now modestly-priced caskets are being advertised over the Net. Ah, that Net, it's changing a lot of practices, not the least being the retail business.

* *

I just got a mailer from the famous Sulka company. Back in the '50s my father used to pride himself by wearing the "very expensive" Sulka silk ties. Those luxurious ties cost $5 each. The circular I just received from Sulka shows their ties at $95 each. Gee, I guess inflation really isn't dead, it just takes time. Remember, at an inflation rate of just 3% your cost of living **doubles** in 25 years. Today, almost every nation in the world is inflating its money supply in an attempt to spur their economy. That kind of action always leads to inflation. It's simply a question of what RATE of inflation.

* *

I don't know about your neighborhood, but in La Jolla we are being besieged by **crows.** I'm serious, I've never seen anything like it. The crows (hundreds of them) have become so bold that they are now perched on the sidewalks in my neighborhood or swooping into our back yard. The crows are very aggressive, and they are scaring most of the local birds away. Crows will invade the nests of local song birds, kill the babies, and lay their own eggs in the stolen nests. A major article in the May 27 *NY Times* states that "as many as 50,000 crows may roost near a single shopping center, attracted by food and by the all-night lights that help them spot predators. Resourceful and fast to learn, the crows also use a complex language that researchers are only beginning to learn."

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The Conference Board says that planned **pay increases** for 1997 and 1998 are at the lowest level since 1975, with most corporations averaging roughly a 4% increase for '97 and '98. The report states that "despite speculation about possible pay inflation, companies appear determined to maintain rigorous compensation control." **Russell comment:** This does not apply to executives where huge compensations (often from the exercise of stock rights) have generated a good deal of anger on the part of workers.

Incidentally, the government doesn't seem to realize that there is a difference between inflation and the **actual cost of living.** Inflation pertains to the price rise (or lack thereof) of items, foodstuffs, materials, etc. But the items that put consumers through the ringer are the cost of movie tickets, laundry prices, taxes, school tuitions, etc.

In a study of **7,200 Americans** conducted by Intuit's *Quicken Financial Network*, they found that 32% have simply stopped saving altogether. 20% routinely get overdue notices from creditors. 17% don't have enough money to pay their taxes. 10% ask family or friends or colleagues for loans. 4% declared personal bankruptcy in the past year. 9% post-date personal checks so they won't bounce. 6% borrow for regular, everyday essentials such as groceries, clothing, gasoline. And these are people on the Net (remember, most people don't even have computers). Prosperity? In a separate study, Scudder, Stevens & Clark found that the typical "boomer's" household has just $35,000 saved for retirement, far too little to support the lifestyle that most of them plan.

* *

I don't like to be cynical, but I'm convinced that one day market historians will look back at today's market and say, "Were they nuts or what?" Would you believe, for instance, there are now 29 listed golf stocks. Golf stocks? Listen, this is a market where rock performer David Bowie sold $55 million worth of bonds based on future earnings and royalties from his music. This golf list is courtesy of *Market Logic* [(800)442-9000]. Save this list to show to your grandchildren. Motto for the 1990s: "If it can be securitized it will be."

Golf Stocks

Stock	Symbol	Recent Price	P/E	Telephone	Business Description
Ajay Spoorts	AJAY	9/32	NE	414-728-5521	Golf accessories
Aldila	ALDA	4 3/8	12	619-592-0404	Graphite club shafts
Arnold Palmer Golf	APGC	3 3/4	NE	423-238-5890	Golf clubs & accessories
Ashworth	ASHW	7 1/2	50	619-438-6610	Apparel
Black Rock Golf	BLRK	2 1/4	NE	303-799-9901	Golf clubs
Brassie Golf	PUTT	5/16	NE	813-621-4653	Course management
Bullet Sports	PARR	1/2	NE	714-966-0310	Golf clubs & accessories
*Callaway Golf	ELY	30 1/4	17	619-931-1771	Golf clubs
Carlyle Golf	CRLG	2 1/8	NE	303-371-2889	Apparel
*Coastcast	PAR	10 1/4	7	310-638-0595	Clubheads
Cutter & Buck	CBUK	12 1/8	25	206-622-4191	Apparel
Family Golf Ctrs.	FGCI	20 1/2	40	516-694-1666	Driving ranges
Glengate Apparel	GLNN	1 5/16	NE	908-518-0006	Apparel
Golden Bear Golf	JACK	10 1/8	NE	561-626-3900	Course & range mgmt.
Golf Tech. Hldgs.	SNKE	2 3/8	NE	904-273-8772	Golf clubs
Golf Training Sys.	GTSX	1 1/4	NE	770-623-6400	Golf instruction products
+Golf Trust of Amer.	GTA	25 1/2	NE	803-768-8300	Golf course REIT
Golf Ventures	GVIM	1 1/2	NE	800-951-1900	Course management
Grip Technology	GTEC	7/8	NE	714-897-8213	Golf club grips
Level Best Golf	LBGF	2 5/8	NE	813-535-7770	Golf Instruction products
Metro Golf	MGLF	2 1/4	NE	303-294-9300	Course management
*Natl. Golf Proprties	TEE	31 1/8	27	310-260-5500	Golf course REIT
Renaissance Golf	FGLF	11/32	NE	714-752-1100	Golf clubs & accessories
Royal Grip	GRIP	2 7/8	NE	602-829-9000	Golf club grips
Sr. Tour Players	SRTR	2 5/8	9	617-266-3600	Course management
Sport-Haley	SPOR	16 1/4	21	303-320-8800	Apparel
Square 2 Golf	GOLF	2	14	201-227-7783	Golf clubs
Teardrop Golf	TDRP	3 1/8	NE	847-945-2222	Putter manufacturer
Visual Edge	EDGE	10 1/8	NE	561-750-7559	Videotaped lessons

(*NYSE, +Amex, all others OTC; NE = no earnings)

* *

In the last Letter I mentioned that **GE** is the first US corporation to be valued by the market at $200 billion or more. Most people don't realize that GE's Capital Services is really a monster bank handling insurance, mortgage insurance, financing and consumer savings. The Capital Services division of GE contributed a huge 38% of GE's 1996 after-tax income of $7.3 billion.

* *

What's left of the once-mighty **British Empire**? The Empire reached its zenith between the two World Wars, at which time the British ruled a quarter of the earth's surface. Disintegration started in 1947 with the loss of India. Then during the end of the 1950s there was the rush to independence in Africa, the West Indies and elsewhere. In July Hong Kong goes back to China, and the British "Empire" now consists of Gibraltar, St. Helena and the Falkland Islands.

* *

But don't discount Britain, which is now booming. Furthermore, Bill Gates in his book, "Road Ahead," notes that it is hard to sort out the paternity of the modern computer, because much of the thinking was done in the US and Britain during World War II under the cloak of wartime secrecy. He adds that it was inspired by "visionary British mathematician" Charles Babbage in the 1830s plus Alan Turing, another "superlative Cambridge-trained British mathematician" working 100 years later. Gates calls Babbage one of the "three major contributors" to the modern computer.

* *

What would the **earth's population** look like if it could be shrunk to just 100 people, with existing ratios remaining the same? There would be 57 Asians, 21 Europeans, 14 from North and South America, and 8 from Africa.

* *

Talk about "irrational exuberance." In **China**, stocks have soared 60% in the last four months. Experts in China call it a battle between the worried regulators and the retailers, with the retailers, so far, winning. Others state that there is simply a lack of

investment opportunities. As rates have declined recently, Chinese have rushed to put their money into the stock market.

* *

I began my fascination with the stock market around 1946. During all the years up to the early '90s there was always one (occasionally two or three) GURUS on Wall Street, people who were widely quoted and followed. Garfield Drew, Jimmy Hughes, Edson Gould, John Magee, Joe Granville, James Dines, Marty Zweig, Bob Prechter, Elaine Garzarelli -- the names float through Wall Street history like an airy financial haze.

One by one all of the gurus have been eased out or "knocked off" by the market itself. The market really doesn't like gurus. Just, it seems, when a guru reaches the heights, the market slams him or her off their pedestal.

Is there a guru today? I guess if there is one, it would have to be Abby Cohen, chief market strategist for Goldman Sachs. Abby is smart and careful. But she occupies a dangerous position. Abby's latest pronouncement is that the rise in small stocks will probably continue. The *WSJ* describes Abby as the "high priestess of Wall Street market strategists." Abby deserves her current fame, but she'll have to be careful. She might remember the old Russell rule, *"There are no geniuses on Wall Streets, only geniuses for a while."*

* *

The French election threw a monkey wrench into the future of the European single currency, the Euro. Eight years after the end of the cold war, leaning to the left is again becoming fashionable among Europe's voters, where cradle-to-grave government welfare programs are considered everyone's birthright. The fact is that the socialist parties now rule or share government power in 13 of 15 nations of the European Union. Writes British analyst Philip Gordon, "Europe is having a hard time accepting the 1980s trend of economic liberalization embodied by Ronald Reagan and Margaret Thatcher. People are wedded to the welfare state and reluctant to go any further. At present, leftist governments rule alone in six key states -- France, Britain, Italy, Greece, Portugal and Sweden."

* *

A friend called me last week and said, "It's finally happening. Home prices are moving up strongly in LA." The May 31 *Economist* describes LA as "a mini-Manhattan of soaring skyscrapers and corporate offices, and an incubator of small businesses . . . After the worst recession in more than half a century, the unemployment rate is now 7.3% compared with about 10% in NYC. LA County created more than 78,000 jobs over the past year, more than any other metropolitan area; at 2% a year, the area's rate of job growth is twice that of NYC and a third greater than Chicago's . . . The reason is that the city's smaller businesses are booming. Companies employing fewer than 100 people are responsible for more than half of the jobs in LA County . . . LA now has the largest clothing and textile industry in the US, employing over 100,000 people and generating sales in excess of $10 billion. Largely Hispanic and Korean, the business now dominates much of downtown . . . The city boasts more than 1,000 food-processing firms, employing over 50,000 people and generating more than $12 billion a year in sales. It is also home to 800 biomedical companies, with over $4 billion in revenues . . . Multimedia firms based in LA employ roughly 133,000 people, more than NYC and the San Francisco area together." **Russell comment:** When I lived in NYC the city's largest industries were printing and textile and clothing. Times have changed. Now the big money producer is Wall Street. The billions created by the bull market have created a boom in NYC. But looking ahead I'd say that when the next bear market arrives, NYC will not be the best place to live.

* *

"They're rich, they're tacky (or worse). And, suddenly, they're everywhere. What were these guys thinking?" That's the cover story on the June 9 issue of *People* magazine. And on the cover we see the smiling faces of Eddie Murphy, Donald Trump, Joe Kennedy, Michael Kennedy, and Frank Gifford. All have been implicated in adultery (as have a Navy admiral and a two-star Army general. What's happening? Are all our "leaders" and prominent stars becoming adulterers? Or are they just following the lead of the nation's number one role model, our current president?

* *

Speaking of Clinton, the current issue of *Esquire* features a fascinating article by noted historian Paul Johnson. A few quotes: "Under Clinton, an impression of tawdriness and lack of principle has spread out from the Oval Office like the distorting ripples of a dirty stone dropped in a sunlit pool . . . No other erring American president was ever bombarded from so many different moral directions . . . So the most likely outcome seems to be a protracted lame-duck existence. Clinton's one hope of escape from this slow political death is to demonstrate, in actions, not words, that he is capable of turning the presidency itself into a moral force, at home and abroad. Can he do it? His personal ethical record suggests it is beyond his power. But stranger things have happened in American presidential history. What is clear is that without such a moral initiative, the Clinton presidency will slowly sink into the quagmire of shame, and all Americans will be the losers."

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In an incisive column in the June 3 *NY Times*, op-ed columnist Russell Baker captures what I feel is the true tenor of the times. Baker writes, "The big story is prosperity. It is here, and with a vengeance. There is so much money washing around the country that people have to get out of bed at dawn on Saturday to get it all spent before the week is out. Washington journalists, trained to concentrate on politics, keep saying that the news has ended. Nonsense. Political news may have ended, but the economic news is thunderous." He adds, "We are wallowing in a gorgeous, juicy economic boom. Millionaires are multiplying like flies. Farmland is being paved over with thousands of miles of new streets running through thousands of new housing developments. Woodlands are being chopped down for 'industrial parks'. Suburbs are sprouting gigantic new malls. This fat, rich America sprawls over such a far-flung landscape that it is accessible only to motorists. Stock markets -- everybody knows about the stock markets. Zingo, bango, Lord how the money rolls in.

"One effect of the boom is to immunize President Clinton against his enemies . . . How hard it must be, how unfair it must seem to those who detest him, how unjust that his popularity remains high despite every effort to cut him down to size . . . . Paula Jones, Whitewater, Dick Morris and his pols and prostitutes, Asian money finagling, Clinton's lack of perceptible political beliefs, the swarm of independent investigations harassing his Administration -- nothing shakes the public's contentment with this presidency . . . The public's attitude appears to be 'first things first.' The first thing now is the big money."

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Adding to the euphoria, Wayne Angell, the gabby ex-Fed board member turned forecaster, wrote a column in the June 3 *NY Times* in which he writes, "Will the Dow reach 10,000 by 1999? My guess is yes, but it depends on the economic policy environment." Angell continues, "The new era calls for faster growth, rising profits, and a windfall of tax receipts . . . Trust in the Fed would improve if the Fed recommitted to its objective of getting inflation even lower. If China can lower inflation while growing at 9%, surely we can gradually lower inflation while growing at a 3% rate."

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Boom? Bankruptcies in New York hit a record in the first three months of '97. First quarter filings rose 8.7% to 16,955 statewide, and the great majority of these were personal. Nationwide, it looks as though bankruptcies will be 1.3 million in '97.

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Photography: While I was in NYC a few weeks ago I visited the Sony building, where they displayed their new digital camera. The camera will take 105 pictures which are all contained on a chip. When the 105 pics are taken, they are loaded onto a disc, and then the camera is ready for another 105 pictures (pictures can be viewed instantly). The disc can then be put into your computer, and the pictures can be seen on a computer or even on your TV set. It seems to me that this is the future of photography. It will be just a matter of time before digital pictures will be of high quality (they are a bit grainy now). A second problem is that digital cameras use up batteries very quickly. Note: if you buy a digital camera be sure

that it has a resolution of at least 640 to 480 pictels (this means that the pics would have quality good enough to show on your TV screen). A high-quality camera now costs about $1,000, while lesser quality digital cameras can be bought for around $300. Final thought: the photography industry is the single biggest user of silver. If digital photography takes over, silver will be a major loser.

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The best information I can get on China's takeover of Hong Kong says that China will leave the colony pretty much alone. Hong Kong will keep its own currency rather than switch to the Chinese renminbi. Hong Kong's leaders (mostly educated in the West and deeply inculcated with capitalism) will control the economy rather than party members from Beijing. On May 5 the *NY Times* ran a piece stating that Hong Kong leaders were more worried about the US butting in to Hong Kong affairs (in an effort to thwart China) than they were about China itself. That tells you all you need to know. MONEY and BUSINESS will rule in Hong Kong while Beijing stands by and monitors the situation.

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I don't have an updated chart of the stocks/real estate ratio, but you can bet that real estate is at the low end of the chart, meaning that real estate (homes, commercial) is "cheap" compared with stocks. Prices are firming up all over the world, and the June 6 *International Herald Tribune* headlines it, "Foreign Buyers Flock to United States." The article continues, "The boom is back. After years of recession and retrenchment, low inflation and a robust stock market are luring buyers back to the real estate market. At the luxury end of the scale, no end is in sight for the boom. Nor is it confined to specific areas of the country."

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In 1995 US consumers spent $25 billion on books. Nevertheless, book publishers are having a hard time and many are apprehensive with many large publishers showing a trend of decreasing earnings. Said Villar publisher David Rosenthal, "I'm scared because we have a country where people are less and less literate, and there is a never-ceasing flow of entertainment outlets competing with us for a similar demographic." Actually, the economics of publishing and the movie business are now similar in that both want to produce blockbuster items. Thus publishers are giving top-name authors huge advances, often in the millions while lesser known or new authors have a difficult time selling their wares.

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If you're thinking of picking up some spare change via narcotics, don't do it in Vietnam or Singapore. If they catch you, you're looking at the death penalty. Last week Vietnam announced the death penalty for eight dealers, including two police captains. Eight others were given life terms.

Vietnam Sentences 8 to Die

Compiled by Our Staff From Dispatches

HANOI — A Vietnamese court on Wednesday sentenced eight people to die before a firing squad for organizing a heroin smuggling ring, and the Communist authorities said the verdict demonstrated their determination to combat [illegible]

In addition to the death sentences, eight people were given life terms in prison and six others received terms ranging from a suspended sentence to 20 years in jail — all for involvement in a trafficking ring that is said to have flooded [illegible]

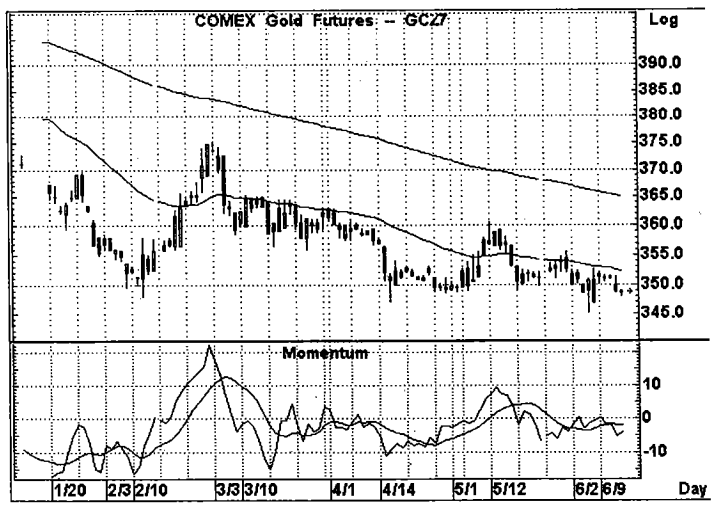
PRECIOUS METALS: Stocks are booming, real estate and housing are joining the upside parade. Apartments are scarce, commercial rents are rising. The only "cheap" items left are the precious metals. Palladium and platinum are pretty much a function of industrial demand and Russian production. I'm afraid of silver because of the rise of digital photography (which doesn't use silver).

That leaves gold and dirt as the only cheap items available (and even the price of bags of garden soil has risen). Consider this -- in 1980 a unit of the Dow would buy one ounce of gold (single gold coins). Today a unit of the Dow will buy a pile of one ounce gold coins -- 22 of them to be exact.

OK, gold is cheap. But that doesn't tell us which way gold is going or whether it can possibly head up. The chart isn't that much help either. Gold (December futures) is now holding just above the lows and also below its short-term or 34-day moving average. The 34-day MA now stands at 352 while the December contract is at 348. Ah yes, December gold is just 4 points below the 34-day MA. Old timers remember when gold would move 10 to 30 points on the upside, and today if gold rallies two bucks it's a revelation.

So there's not much more to say here. Gold is cheap, but it isn't moving. The central banks have been sellers of gold, and curiously, the public has been a big buyer of gold and gold jewelry. Some people somewhere must realize that gold is cheap, and they're collecting it -- in coins and jewelry form.

One thing to remember about gold -- it doesn't go bankrupt and it doesn't disappear through time. Holding gold is insurance, but like most insurance policies, you don't get paid to hold it (unless an emergency hits and then it's a bargain).



LATE NOTES: Remember the old saying -- "the market is a law unto itself." Better believe it, for if the current market isn't a law unto itself, then I've never seen one.

Every once in a while (often decades might go by) we get a market like this one. Buying is persistent, urgent, even frantic. Selling has dried up.

But this market has a unique feature that has never been seen before. Billions of dollars are coming into this market weekly via mutual funds. Traders, seasoned old-timers, are dumbfounded. They may be dumbfounded, but they know what to do -- you "get with the trend." And if you're (Lord forbid) short, you cover.

Veteran technicians search for cracks in the market, signs of weakness, non-confirmations, lagging volume, anything that might tell them that there are hints of danger in the price structure.

Frankly, you can't find 'em. This market is an engine roaring its way heavenward, and no one can say where it's fated to stop.

In my experience, markets like this usually end with a one-day reversal -- in other words, the market moves up on huge volume, it hesitates, churns wildly, and by the close it has turned around and is down for the day. That, in a nutshell, is how I think this leg (and maybe the whole bull market) will end.

I'm interviewed every Friday (7:20 AM) on TV channel KWHY out of LA. Last week they asked me, "Richard, what would you invest in here?" My answer, "You're not investing here at all, you're buying stocks hoping that they'll continue to go up. Investing is buying values." Consider this -- the dividend on the Dow is now 126.78. On the latest Dow price, this means that the Dow is providing a yield of 1.63%. Treasury bonds now yield 6.6%; in other words, the ratio is four to one in favor of bonds. Mmmm.

NEXT MAILING: July 2, 1997